

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7315

BILL NUMBER: HB 1772

DATE PREPARED: Jan 8, 2001

BILL AMENDED:

SUBJECT: Motor Vehicle Excise Tax Replacement.

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues			
State Expenditures		75,200,000	139,700,000
Net Increase (Decrease)		(75,200,000)	(139,700,000)

LOCAL IMPACT	CY 2001	CY 2002	CY 2003
Local Revenues		150,500,000	129,000,000
Local Expenditures			
Net Increase (Decrease)		150,500,000	129,000,000

Summary of Legislation: This bill requires the Auditor of State to distribute to each county that receives less Motor Vehicle Excise Taxes in a month than the county would have received at the January 1, 1995, Motor Vehicle Excise Tax rates, the amount of the difference. It provides that the money needed for the distribution shall be transferred from the state General Fund to the state General Fund Motor Vehicle Excise Tax Replacement Account. The bill appropriates from the state General Fund Motor Vehicle Excise Tax Replacement Account the amount needed to make the distributions. The bill also eliminates the current distribution procedures.

Effective Date: January 1, 2002.

Explanation of State Expenditures: Under current law, the state replaces a portion of the Motor Vehicle

Excise Tax reduction that was effective beginning in CY 1996. The majority of the replacement revenue comes from the Lottery and Gaming Surplus Account (LGSA) of the Build Indiana Fund. The contribution from the LGSA has been increasing each year, but will level off at \$236.2 M per year beginning in CY 2001. An additional \$200,000 per year is paid from the state General Fund bringing total state funding to a cap of \$236.4 M per year in CY 2001 and years thereafter. The 1996 tax cut reduced most Excise Tax rates by 50%.

While the replacement revenue transferred from LGSA and state General Fund replaces the majority of the Excise Tax cut, a portion of the revenue that would have been received under the pre-1996 Excise Tax rates is not replaced. This bill would require the state to replace 100% of the revenue not received due to the tax cut.

After the first year of the additional state transfers under this bill, the net state cost could be reduced due to the effects of the additional Excise Tax revenue on the state school funding formula. The school funding formula sets a specific income level for each school corporation. The state school distribution is equal to the total income amount less the local effort amount. The local effort amount includes Motor Vehicle Excise Tax revenue (from all sources) from the preceding year. Since this bill would increase Motor Vehicle Excise Tax revenue for school corporations' General Funds, the state's school funding share for school corporations would be reduced by the same amount in the following year. (This assumes no change in the current school funding formula.)

The table below shows the estimate of additional Excise Tax replacement, the estimated school funding formula reduction, and the net state cost of this proposal on a calendar year basis.

	Excise Tax to be Replaced Under Proposal	School Funding Formula Reduction	Net State Cost under Proposal
CY 2002	\$150.5 M		\$150.5 M
CY 2003	\$171.8 M	\$42.8 M	\$129.0 M
CY 2004	\$192.3 M	\$48.8 M	\$143.4 M
CY 2005	\$214.4 M	\$54.7 M	\$159.8 M
CY 2006	\$237.2 M	\$61.0 M	\$176.2 M

The net fiscal year cost of this bill is estimated at \$75.2 M in FY 2002 (six months), \$139.7 in FY 2003, \$136.2 M in FY 2004, \$151.6 M in FY 2005, and \$168.0 M in FY 2006. The cost would continue to grow by about \$17 M per year after FY 2006.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Local Excise Tax revenues would be increased by the additional state replacement money required by this proposal. **The net (after school formula adjustments) amount of local revenue increases under this bill is estimated at \$150.5 M in CY 2002, \$129.0 M in CY 2003, \$143.4 M in CY 2004, \$159.8 M in CY 2005, and \$176.2 M in CY 2006.**

Excise taxes are apportioned to all of the taxing units that serve the taxpayer on the basis of property tax levy. School corporations would receive a portion of the increased excise revenues in all funds except for the school General Fund. (Because of the one year delay in the effect on the state school funding formula, school General Funds would receive additional excise tax revenue in CY 2002 only.)

State Agencies Affected: Auditor of State.

Local Agencies Affected: Local governmental units and school corporations.

Information Sources: